



**RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Management and Enterprise which is kept by the Distribution Section, Comptroller General of the United States OAS**  
 WASHINGTON DC 20548

B-118718  
 12-14-70

B-118718

*JNA*

*RLLELLU*

*089830*

RELEASED

DEC 14 1970

*DLG06066*

Dear Senator Saxbe.

On July 13, 1970, you referred to us for consideration two telegrams in which it was proposed that our Office investigate the purchase of the Crestview Apartments by the Cleveland Metropolitan Housing Authority (Authority). This purchase was made under the low-rent public housing program administered by the Department of Housing and Urban Development (HUD). Our examination into this purchase was directed toward whether the apartments and the site were suitable for housing the elderly and whether the acquisition cost was reasonable.

We examined pertinent records and files of HUD, the Authority, and the developer of Crestview. We also interviewed officials of HUD's Chicago Regional Office and the Authority and representatives of the Cleveland Air Pollution Board, "Old Brooklyn" Citizens Association, Cleveland Real Estate Board, and tenants of Crestview.

We concluded that the apartments and the site, although containing certain undesirable features, were suitable for housing the elderly and that the total acquisition cost--all directly related costs, including administrative costs of the Authority, in acquiring or constructing a project--was reasonable when compared with the cost of other low-rent housing projects for the elderly. Representatives of the Cleveland Real Estate Board informed us, however, that a buyer with time to shop around and without an immediate need might have been able to purchase apartments like Crestview for a lower price.

The United States Housing Act of 1937, as amended (42 U.S.C. 1401), authorizes HUD to provide financial and technical assistance to local housing authorities to plan, build and/or acquire, own, and operate low-rent public housing projects. HUD provides financial assistance in the form of loans for development and in the form of contributions (subsidies) under contracts with local housing authorities. The contracts provide for annual contributions which, if made in the maximum allowable amounts, would be sufficient to pay the principal and interest on bonds and notes sold by the authorities to obtain funds to finance the cost of developing the projects.

**089830**

The Crestview Apartments, which were purchased to provide housing for low-income elderly are located 4 miles south of downtown Cleveland between a residential neighborhood and Cleveland's industrial valley. Crestview consists of two four-story, 115-suite buildings on 20 acres of land. One building was completed in 1966, the other in 1968. Each apartment is partially carpeted and equipped with an electric stove, refrigerator, garbage disposal, and through-the-wall air conditioner. There is a swimming pool on the site which is used by both tenants and children from the neighborhood. Construction of 25 single-family houses is planned by the Authority on a portion of the land.

In September 1968, the Authority purchased Crestview for \$2,712,000 from William and Robert Risman who had formed a joint venture with U. S. Plywood-Champion Paper, Inc. to build Crestview. The Authority estimates that the cost of acquiring the apartments--including administration and improvements--will amount to about \$3.1 million. (See enc. I.) This total cost does not include \$207,000 which is the appraised value of the land earmarked for family housing.

#### SUITABILITY

The occupancy of the Crestview Apartments has been high and turnover has been low. In the year prior to the offer to sell (July 1967 to June 1968), the occupancy of one building averaged 94 percent. The other building, which was still under construction when the offer was made, was 76 percent occupied. Since May 1969 the average occupancy rate has been 99 percent.

Authority officials told us that Crestview was purchased because

--the design was particularly suitable for the elderly, i.e., elevators, low cabinets, and electric stoves,

--there was a particular need for public housing for the elderly in that area,

--the apartments were available for immediate occupancy,

--the price was right, and

--the sale included land which could be used for family housing.

After inspecting the site and reviewing the appraisers' valuation of Crestview which was prepared at the request of the Authority, HUD

approved the purchase. HUD officials told us that they had considered factors such as air pollution, nearness to public transportation and shopping areas, and security. The only factor they objected to was the distance to public transportation and shopping facilities. HUD withdrew this objection when the Authority bought a bus for use by the tenants.

The nearest shopping area is a mile away; the nearest bus stop is two thirds of a mile. The only store close by is a small delicatessen which can be used for immediate needs. The bus the Authority purchased makes trips each weekday to shopping areas, banks, and commercial transportation stops and is available on special request on weekends. The Cleveland Transportation Action Program also provides a bus for tenants on Mondays and Fridays.

Nowhere in Cleveland does the quality of the air meet the State of Ohio standards for clean air. Some areas of the city are worse than others. On a scale measuring air pollutants, the site where Crestview is located falls in about the middle of the range. (See encs. II and III.) According to officials of the Cleveland Air Pollution Control Board, Crestview escapes most of the dirty air from the nearby industrial area because the winds usually do not blow the pollutants toward the apartments.

City officials told us that Crestview does not meet two building requirements. They said that the pipeline connecting the Crestview sewers to the city sewers is not large enough and that the required fire alarm system has not been installed. An Authority official told us on October 23, 1970, that work on the larger pipeline was currently under way and the fire alarm system was to be installed within 180 days.

A feature of the Crestview Apartments which appears to be inconsistent with the needs of the elderly occupants is that approximately 45 percent of the rental units have two bedrooms. HUD's Preconstruction Handbook, which governs the planning of construction of new projects for the elderly, provides that, for projects containing more than 50 units, at least 60 percent of all units be efficiencies and not more than 4 percent be two-bedroom units. This requirement was based on HUD's experience which showed that most of the units in projects for the elderly were occupied by one person.

We noted that, at the time of our fieldwork, 35 individuals were occupying 35 two-bedroom units in which the Authority had locked one

of the bedroom doors. The Authority's regulations provide that a minimum of two and a maximum of four persons occupy a two-bedroom unit, therefore, these units were occupied on a basis below the minimum requirement. We were informed by Authority officials that they had considered converting the two-bedroom units to one-bedroom units and efficiency units but that they determined that it would be too costly.

Because of the controversy over public housing in Cleveland, the PATH Association (Plan of Action for Tomorrow's Housing) asked all of the tenants in June 1970 whether they liked living at Crestview, 94 percent said that they did. In August 1970 we asked 25 tenants the same question, 23 said that they liked Crestview. When asked about air pollution and transportation, however, 11 said that the air pollution was bothersome and six thought that the transportation provided was inadequate.

ACQUISITION COST

We compared the acquisition cost of the Crestview Apartments with the cost of two other apartments which were constructed by the Authority at about the time Crestview was purchased. We found that the acquisition cost for Crestview appeared reasonable when compared with the cost for the other two apartments as shown by the following table.

	<u>Crestview</u>	<u>King Kennedy II (note a)</u>	<u>Willson (note a)</u>
Total acquisition cost	\$3,097,987	\$3,504,614	\$3,919,720

Unit composition.

Efficiencies	2	144	164
one-bedroom	116	90	82
two-bedroom	<u>112</u>	<u>-</u>	<u>-</u>
Total units	<u>230</u>	<u>234</u>	<u>246</u>
Total square footage	178,624	123,294	143,686

<sup>a</sup> Includes only the units and that portion of the total development cost applicable to housing the elderly.

We also used HUD's cost-allocation formula to compute the costs applicable to the various-sized dwelling units in the apartment projects. Our computations showed that the unit cost for comparable units--efficiencies and one-bedroom units--was less for units in Crestview than for the other two apartments. We could not compare the costs of two-bedroom units because the other apartment projects did not have any two-bedroom units. We noted, however, that on the basis of the formula, the cost applicable to a two-bedroom unit in Crestview was less than the cost applicable to a one-bedroom unit in the other apartment projects.

The purchase price for Crestview was based on an appraisal made by the Cleveland Real Estate Board. The appraisers valued Crestview in the range from \$2,512,000 to \$2,712,000. The \$2,512,000 was based on their recent sales prices of other apartments and the \$2,712,000 represented the cost of replacement. The appraisers informed us that a buyer with time to shop around could probably buy apartments like Crestview for the lower price although someone with an immediate need would be willing to pay the \$2,712,000.

The Authority informed us that it did not attempt to negotiate a purchase price lower than the highest appraised value of \$2,712,000. HUD officials told us that they believed that the purchase price was reasonable.

Our examination of the joint venture's books showed that a profit of about \$500,000 was made on the sale and both parties to the joint venture concurred with the profit figure.

- - - -

We did not obtain written comments from any of the parties involved in the matters discussed in this report, however, the information contained herein was based on information available in their files or furnished by them and was discussed informally with them.

Since disclosure of information included in this letter may be prohibited by the United States Code (18 U.S.C. 1905), we shall not disclose its contents to the public. That statute makes it a criminal

B--118718

offense to disclose the "amount or source of any income, profits, losses, or expenditures" of any person or firm. In accordance with your request we are returning the two telegrams you forwarded to us.

Sincerely yours,



Assistant

Comptroller General  
of the United States

Enclosures - 3

The Honorable William B. Saxbe  
United States Senate

## ENCLOSURE 1

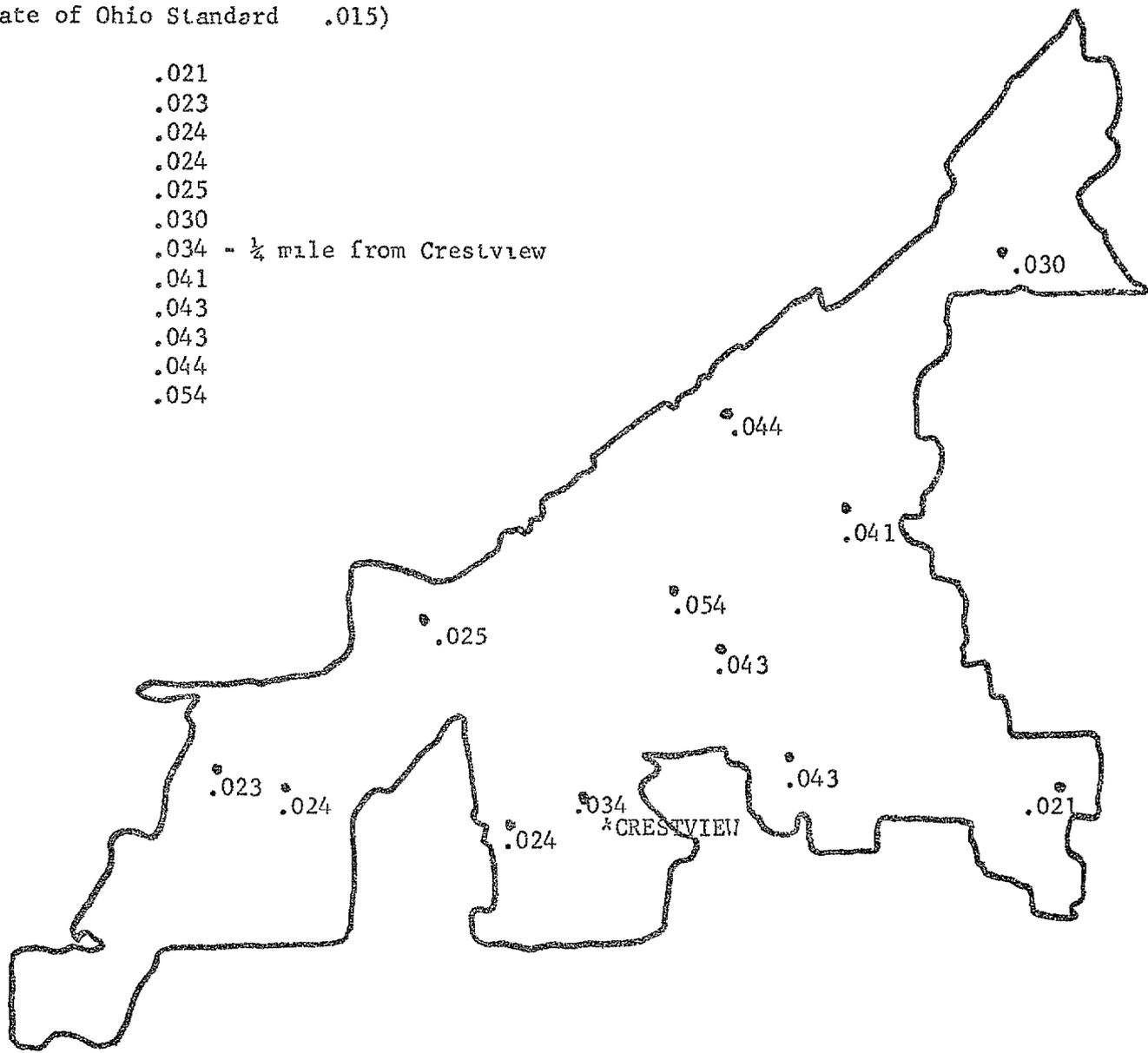
## ESTIMATED ACQUISITION COST OF CRESTVIEW APARTMENTS

Purchase price for two 4-story, 115-suite buildings on 20 acres of land /		\$2,712,000
Additional estimated costs		
Administration	\$12,805	
Interest	118,938	
Planning	52,266	
Surveys, maps, appraisals, etc.	29,974	
Construction and equipment (includes community center)	422,778	
Tenant relocation cost	26,507	
Contingency	18,975	
Less rental income during development	<u>(89,256)</u>	592,987
Less portion of land earmarked for family housing		<u>(207,000)</u>
Cost of Crestview Apartments		<u><u>\$3,097,987</u></u>

MAP OF CLEVELAND SHOWING SULFUR DIOXIDE  
CONCENTRATIONS AT 12 MONITORING STATIONS  
DURING 1969  
(PARTS PER MILLION)

Ranking of Stations  
(State of Ohio Standard .015)

- .021
- .023
- .024
- .024
- .025
- .030
- .034 - 1/4 mile from Crestview
- .041
- .043
- .043
- .044
- .054



MAP OF CLEVELAND SHOWING SUSPENDED  
 PARTICULATE MATTER AT 20  
 MONITORING STATIONS DURING 1969  
 (MICROGRAMS PER CUBIC METER)

Ranking of Stations  
 (State of Ohio Standard: 65)

